

Economic stability in an unstable world



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Last Monday the minister for finance presented the annual Budget speech for the year 2023. People were hooked to the television and the radio to listen whether it will be a bountiful or a stingy Budget. Indeed, it turned out to be a bountiful one. Direct taxes were left untouched and the reallocation of capital expenditure made it possible to sustain the most pressing negative effects of energy inflation.

Personally, I think that the most two awaited announcements were the stability of the energy and fuel prices and the cost-of-living adjustment better known by its acronym the COLA. This year's COLA amounted to € 9.90 per week. In addition, pensioners were rewarded an extra increment of €2.60, thereby increasing their pension by €12.50 per week. Moreover, a new adjustment to the COLA, for those falling within the vulnerable category, was introduced to support low-income families.

Notwithstanding that the COLA is one of the highest in recent years, also reflecting the increase in inflation, government sought to introduce additional targeted measures. The new targeted measures are directed towards different categories. Eighty thousand vulnerable people will be receiving an additional COLA under a new mechanism. This will be shouldered by the government without adding any additional burden on the private industry.

Research shows that in exceptional times of high inflation the COLA is not enough for those falling within the vulnerable bracket. The minister for finance explained that the Retail Price Index (RPI) does not always reflect the consumption behaviour of the most vulnerable families, especially in periods of instability and higher inflation. Clearly, in times of high inflation, the most typically affected are those services and products that are mostly needed for low-income families. For this reason, government introduced a new mechanism targeting the most vulnerable by introducing a thorough analysis of the components of the products and services in the basket of the RPI. If annual inflation is higher than 2% and three out of five listed components, mainly food; accommodation; water; electricity, gas and fuel; costs related to the maintenance and household appliances and private health care, exceed the average of the preceding years the new mechanism is triggered to help those falling in the vulnerable category. The finance minister informed that around 21,000 families will be receiving the compensation before Christmas.

There are other targeted measures and clearly some nudge economics was also introduced in the 2023 Budget. One of the measures that caught my attention relates to the additional financial compensation for those suffering from the condition of coeliac. The targeted



measure relates to a compensation of €20 per month to aid families with the increase in food prices given that their limited choice of food products became dearer in the past months. Unquestionably, another measure that struck me pertains to the increase in the carers' grant. Those parents who cannot work because they must take care of their adult children with severe disabilities, will be rewarded half the net of the national minimum wage which amounts to just over €4,500 annually and it will be paid every quarter.

Certainly, I can carry on mentioning other measures that I personally support. However, I will devote part of this article to the analysis of the Budget not just from a financial perspective but also from a people's priorities perspective. When I engage with my counterparts abroad, they question the sustainability of these measures. Nevertheless, when I explain that the most important measures are those that offer stability to sustain economic growth through private investment and the stimulation of private consumption, they tend to somehow agree. Surely, these newly proposed policies ought to, just like the preceding Budget measures, yield additional economic growth.

During the Budget speech I stayed updating my social media page with the announced meas-

ures. My Hayekian peers were criticising the government intervention and leaving me comments on my page. However, the criticism brought a smile on my face. When I was analysing the fact that on mainland Europe people are worried about fuel shortages this winter, here in Malta some commentators were worried about the traffic congestions.

Certainly, fuel shortages won't be a problem in Malta if traffic congestion is one of the most prioritised problems on the island. To put things into perspective I am not saying that in Malta we do not have a traffic problem. However, when I compare the traffic and the long queues that I had to wait under the park Cinquantenaire tunnel in Brussels, to arrive in time for my committee meetings in Council, certainly the traffic waiting time here in Malta is less than that of Brussels. Relatively, the same distance from Tarxien to Santa Venera used to take me twice the time in Brussels, even when we consider that they also have a tram and an underground system in place.

Currently, people in Europe are worried about the shortages of fuels, astronomical energy prices, as well as the shrinking pockets to provide for their families. Also, people are worried to pay higher loan mort-

gages repayments. It is worth mentioning that this week the European Central Bank announced another interest rate increase as part of their monetary policy measures to curb inflation. Undoubtedly, the economic prospects look grim. For this reason, in such turbulent economic times one would expect other priorities to top the list rather than the traffic congestion. I am not saying that this must not be a concern for the affected people, but it should not top the list.

Certainly, this reminds me of my elementary economics and the Maslow's hierarchy of needs. When economic growth reaches society at large in what is called trickle-down economics, and when a country progresses, both economically and socially, the deficiency needs related to deprivation diminishes and people look for other priorities relating to growth. Indeed, when we reach the growth stage in the hierarchy of needs, these continue to be felt and perhaps become stronger once they have been engaged.

And to conclude, when we rank our priorities we must analyse the context of the global economy, especially when our European counterparts are grappling to make their ends meet.